

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SP-02 AID-05 TRSE-00 SS-15
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O R 052131Z MAY 78
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 1085
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY CARACAS
AMEMBASSY GEORGETOWN
AMEMBASSY NASSAU
AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L KINGSTON 3845

E.O. 11652: N/A
TAGS: ECON, EFIN, JM
SUBJECT: DELAY IN COMPLETION OF IMF NEGOTIATIONS

REFERENCE: KINGSTON 3752

1. SUMMARY: COMPLETION OF THE NEGOTIATIONS LEADING TO A NEW IMF-GOJ AGREEMENT HAS BEEN DELAYED AND THE REPORT ON THE IMF NEGOTIATIONS THAT

WAS TO HAVE BEEN PRESENTED TO THE HOUSE OF REPRESENTATIVES BY FINANCE MINISTER BELL WAS POSTPONED. ACCORDING TO PRESS REPORTS, DISCUSSIONS ON THE IMF AGREEMENT ARE STILL CONTINUING AND ANNOUNCEMENT OF THE RESULT HAS BEEN SET BACK TO TUESDAY, MAY 9. THE THREE AREAS THAT HAVE CAUSED CONSIDERABLE DIFFICULTIES INCLUDE THE SETTING OF THE EXCHANGE RATE, THE PROPOSED WAGE GUIDELINES AND THE CENTRAL GOVERNMENT'S BUDGET. END SUMMARY.

2. THE DAILY GLEANER OF MAY 5 REPORTED THAT COMPLETION OF THE NEGOTIATIONS LEADING TO A NEW IMF-GOJ AGREEMENT HAVE BEEN HELD UP.
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AS A RESULT, THE REPORT ON NEGOTIATIONS THAT WAS TO HAVE BEEN PRESENTED TO THE HOUSE OF REPRESENTATIVES BY FINANCE MINISTER ERIC BELL WAS WITHHELD. WHILE NEGOTIATORS ON EITHER SIDE OF THE TALKS SUCCEEDED

IN ARRIVING AT AN UNDERSTANDING ON A NUMBER OF MAJOR POINTS, THERE WERE THREE AREAS THAT CAUSED CONSIDERABLE DIFFICULTIES. THESE WERE THE VALUE OF THE JAMAICAN CURRENCY, THE PROPOSED WAGE

GUIDELINES OR PAY RESTRAINT, AND THE CENTRAL GOVERNMENT'S BUDGET.

3. ACCORDING TO THE GLEANER'S SOURCES, THE IMF FAVORS THE ESTABLISHMENT OF A SINGLE RATE OF EXCHANGE IN LIEU OF THE PRESENT TWO-TIERED SYSTEM, AND THAT ACCORDING TO PRESENT INDICATIONS, "THE IMF FAVORS PEGGING THE JAMAICAN DOLLAR AT THE RATE OF J\$1.35 (EQUAL US\$1.00) WITH A GRADUAL MOVEMENT DOWN TO J\$1.50 DURING THE FIRST YEAR".

4. ACCORDING TO THE REPORT, THE JAMAICAN CABINET HAD EXPRESSED DEEP CONCERN AT THE IMPACT THAT THE DEVALUATION WOULD HAVE ON THE PRICES OF BASIC ESSENTIALS AND, SINCE ITS MEETING BEGAN ON MONDAY, THE CABINET HAD BEEN TRYING TO DEVISE WAYS TO CUSHION THE SHOCKS EXPECTED TO FLOW FROM THE DEVALUATION.

5. WITH RESPECT TO THE PROPOSED WAGE GUIDELINES, THE GOVERNMENT WAS REPORTED TO HAVE DECIDED TO RETREAT FROM THE PROPOSAL AS ORIGINALLY SET OUT (REPORTED IN REFTEL) BECAUSE OF OPPOSITION OF THE TWO MAJOR TRADE UNIONS AND SOME SKEPTICISM BY BUSINESS LEADERS, AND TO INTRODUCE INSTEAD A NEW SET OF WAGE GUIDELINES TO BE EFFECTED BY LEGISLATION (THE REPORT DID NOT SAY WHAT THEY WOULD BE) INSTEAD OF THE PROPOSED PAY RESTRAINT ACT.

6. A RELEASE FROM THE PRIME MINISTER'S OFFICE ALSO INDICATED DIFFICULTIES RELATING TO "THE SIZE, THE STRUCTURE AND FINANCING OF THE BUDGET" (SEE COMMENT).

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7. IN VIEW OF THESE DIFFICULTIES, THE PRESENTATION OF THE IMF AGREEMENT TO THE HOUSE, ORIGINALLY SCHEDULED FOR MAY 4, HAS BEEN DELAYED TO TUESDAY, MAY 9. THE HON. K. MUNN, LEADER OF THE HOUSE, ANNOUNCED THAT THE DEBATE ON THE AGREEMENT WOULD BE OPENED BY MR. BELL ON MAY 9 WOULD THEN BE ADJOURNED (AS THE CURRENT SESSION ENDS ON THAT DATE), TO BE CONTINUED TO A CONCLUSION ON MAY 17.

8. THE GLEANER NOTED THAT "THE GOVERNMENT'S DECISION TO DEBATE THE IMF AGREEMENT AT THIS STAGE REPRESENTS A CHANGE OF THE PROPOSAL FOR A FORMAL MINISTERIAL STATEMENT BY MR. BELL ON THE MATTER". THE JLP OPPOSITION HAD PROTESTED THIS PROPOSAL AND CALLED FOR AN IMMEDIATE DEBATE ON THE AGREEMENT. PRIME MINISTER MANLEY SAID ON MAY 4 THAT "THE DEBATE WAS TAKING PLACE BECAUSE OF THE CRUCIAL NATURE AND FAR-REACHING IMPORTANCE OF THE AGREEMENT".

9. COMMENTS:

A. ACCORDING TO INFORMATION CONVEYED TO THE AMBASSADOR LAST NIGHT MINISTER OF FOREIGN AFFAIRS P.J. PATTERSON, THE IMF HAS PRESSED THE GOVERNMENT TO MAKE DEEP CUTS IN ITS

EXPENDITURES AND TO SUBSTANTIALLY INCREASE ITS TAX COLLECTIONS -- ON A SCALE SUCH AS TO CONVERT A J\$ 150 MILLION BUDGETARY DEFICIT (FOR FY78-79) INTO A J\$ 150 MILLION BUDGETARY SURPLUS. THE PURPOSE IS TO FORCE THE DEEP CUTS IN CONSUMPTION THAT THE IMF CONSIDERS ESSENTIAL. PATTERSON CONSIDERS THIS MEASURE A "POLITICAL IMPOSSIBILITY", AND FEELS THAT THE VERY BEST THAT COULD BE ACHIEVED IS TO REDUCE THE BUDGETARY DEFICIT FROM J\$150 MILLION TO J\$ 50 MILLION.

B. PATTERSON INDICATED NEVERTHELESS THAT AN AGREEMENT WITH THE IMF WAS IMMINENT.

C. OPPOSITION TO THE TERMS OF THE IMF AGREEMENT IS CONFIDENTIAL

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OBTAINING INTENSE AND WIDESPREAD. WHILE THE STRONGEST AND MOST EFFECTIVE OPPOSITION COMES FROM THE LABOR UNIONS AND IS DIRECTED AT THE WAGE GUIDELINES, THERE IS ALSO STRONG AND BROADLY BASED OPPOSITION TO THE PROPOSAL TO DEVALUE, RAISE TAXES AND CUT GOVERNMENT EXPENDITURES. THE GOVERNMENT WILL HAVE A DIFFICULT TIME IN THE MONTHS AHEAD.
IRVING

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